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Greek 'Death Spiral' May Make Default Unavoidable, Hanke Says

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By Ott Ummelas

May 26 (Bloomberg) -- Greece's rescue package doesn't address the "anti-market" structure of its economy, meaning default may become unavoidable, said Steve Hanke, a professor at Johns Hopkins University.

"Greece's death spiral will end with debt restructuring or the outright default of its sovereign debt," Hanke, also a senior fellow at the Cato Institute in Washington, wrote in an article on the institute's website, dated yesterday. "While politicians and bureaucrats from the European Union, the International Monetary Fund and Greece tell us that the bailout package will defuse Greece's time bomb, don't believe their 'cheerful Charlie' chant."

Without the option of currency devaluation, Greece needs to push through tax reform to improve its competitiveness, Hanke said. The country ranks 109th in an "ease of doing business" survey of 183 countries, according to the World Bank. Estonia, a former communist state in line to join the single currency in January, ranks 24th.

"Without growth, Greece is doomed," said Hanke, who was an architect of Estonia's currency board, which the country adopted in 1992, pegging the kroon to the German mark.

Euro area finance ministers and the International Monetary Fund on May 2 agreed a 110 billion euro ($135 billion) aid package for Greece. The EU a week later pledged almost $1 trillion to counter fears of contagion and protect the euro.

Greece has promised to implement austerity measures of almost 14 percent of gross domestic product in exchange for rescue funds that officials hoped would stem declines in the euro. The currency has lost 19 percent against the dollar since a Nov. 25 high.

Greece would benefit from scrapping employer contributions to payroll taxes and imposing a uniform VAT rate, Hanke said. Such measures would boost competitiveness "roughly" equivalent to a 40 percent to 45 percent currency devaluation, he said, citing research by Domingo Cavallo, Argentina's former Economy Minister, and Joaquin Cottani, former Undersecretary of Economic Policy in Argentina.

--Editors: Tasneem Brogger, Chris Kirkham.

To contact the reporter on this story: Ott Ummelas in Tallinn at oummelas@bloomberg.net

To contact the editor responsible for this story: Willy Morris at wmorris@bloomberg.net